

The complaint

Ms O complains that Barclays Bank UK PLC trading as Tesco Bank was irresponsible in its lending to her. She wants a full refund of all interest, fees and charges on both loans and all associated entries removed from her credit file. She would also like an apology for the financial and emotional harm she has been caused.

What happened

Ms O was provided with two loans by Tesco Bank the details of which are set out below.

Loan	Date	Amount	Loan term	Monthly repayments
1	July 2018	£25,000	120 months	£376.86
2	February 2020	£35,000	120 months	£610.76

Ms O doesn't think that Tesco Bank carried out adequate checks before the loans were provided. She said that when she applied for the first loan she had just taken on a mortgage, and this should have triggered a proper assessment to ensure she could afford more debt. She then took out a further loan in February 2020 and said at this point she had over £57,000 of unsecured debt. Ms O said that Tesco Bank didn't request copies of her bank statements or payslips and carried out no detailed expenditure checks. She believes that had adequate affordability checks happened, Tesco Bank wouldn't have provided either loan.

Tesco Bank issued a final response not upholding Ms O's complaint. It explained that Ms O applied for the first loan in July 2018 and then for a top up loan in February 2020. The second loan was used to settle the first loan.

Tesco Bank said that when assessing Ms O's first loan application it didn't find that she was overindebted and there were no adverse markers on her credit file. It used data provided by Ms O, along with data from her credit file and third-party sources to assess affordability and found that the loan repayments would be affordable for her.

Regarding the second, top up loan, Tesco Bank completed affordability and credit worthiness checks similar to those undertaken before loan one. It noted that Ms O had unsecured debt of £57,323 and said this was acceptable when compared to her monthly income. It noted that Ms O had maintained her first loan well and there was no adverse information recorded on her credit file. Tesco Bank found the loan was affordable for Ms O.

Ms O referred her complaint to this service.

Our investigator noted the size of the loans being issued and Ms O's existing commitments and didn't think that the checks were proportionate and thought further verification was required. Because of this they considered what would likely have been identified had

reasonable checks taken place and used information from Ms O's bank statements to assess this. This review found that proportionate checks would have shown loan one to be affordable for Ms O but not loan two. Therefore, our investigator upheld this complaint regarding the second loan.

Tesco Bank didn't agree with our investigator's view. It didn't agree with how our investigator had calculated the income and expenses and noted that Ms O's income appeared to be from several sources and her outgoings included discretionary spending. However, it said that even if it accepted our investigator's calculations, this left £573 of net disposable income which it thought shouldn't be considered as low. Tesco Bank noted that it had used industry standard values to work out the affordability of the loans using the data Ms O provided. It said that Ms O was able to make her loan repayments without issue until November 2024 when she lost her job.

Our investigator responded to Tesco Bank's comments. They noted that when loan two was provided, Ms O had £57,000 of unsecured debt which they said meant the checks should have gone beyond a basic credit check, self-declared data and third-party estimates. They said that had proportionate checks taken place Tesco Bank would have seen that Ms O would be left with £573 of disposable income (and noted that only essential costs had been included in the assessment). They explained this was before the Tesco Bank repayments of £610 which once made would leave Ms O in a deficit position.

Tesco Bank still didn't agree with how the income and expenditure had been calculated. As a resolution wasn't agreed, this complaint was passed to me, an ombudsman, to issue a decision.

My provisional conclusions

I issued a provisional decision upholding this complaint in regard to the second loan. This was the same outcome to that set out by our investigator but as I relied on additional information and provided further reasoning, I issued a provisional decision to allow the parties the opportunity to submit any further comments. The details of my decision are set out below.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Ms O was provided with two loans by Tesco Bank, and I have considered each lending decision below.

Loan one: July 2018

Loan one was for £25,000 and Ms O was required to make 120 monthly repayments of around £377. This was a substantial loan and so we would expect Tesco Bank to gather sufficient information to ensure it had a clear understanding of Ms O's specific financial position before lending.

Before the loan was provided, Tesco Bank gathered information about Ms O's employment, income and residential status. Ms O declared that she was self-employed with a net monthly

income of £6,000. She said she was a homeowner with a mortgage. A credit check was undertaken which showed Ms O had no defaults, county court judgements or delinquent accounts. Her credit commitments were up to date. Ms O was recorded as having a mortgage balance of £383,000, unsecured debt of £15,590 which consisted of £696 of loans and £14,894 of revolving credit.

While I do not find that Ms O's credit check raised concerns about her level of debt compared to her declared income or that she was struggling with her existing commitments, given the size of the loan, and the repayments over the loan term, I think that further verification should have taken place to ensure that Tesco Bank was confident in the declared income figure and had an understanding of Ms O's specific expenses.

While Tesco Bank wasn't required to request copies of Ms O's bank statements, I have used these to understand what further checks would have identified and to see whether this should have raised any concerns about the loan.

Ms O's bank statements for the months leading up to loan one being provided show that Ms O received income from different sources. Having requested further details of these from Ms O she has explained that some payments were loans while others were loan repayments, the return of a deposit from a property she lived in and money from a personal injury claim. There were several transfers into the account from other accounts and having looked at the additional statements Ms O has provided, these include payments from other external sources. It isn't clear exactly what Ms O would have declared in regard to her income had further questions been asked, but having looked at the receipts into her account, noting the income she declared and the additional information provided, I find on balance an income of around £6,000 would likely have been identified.

Tesco Bank's credit checks showed Ms O to have a mortgage with monthly repayments of £1,483 and these are supported by her bank statements. Based on Ms O's unsecured debts, Tesco Bank included her existing credit costs as £490 which I find reasonable. Deducting these amounts from Ms O's income would leave around £4,000 for her other costs such as utilities, insurance, council tax and other household and general living costs. Having looked through Ms O's statements, these show some large payments, but Ms O has explained these were for building works and so I wouldn't consider these to be regular costs. Having considered her regular costs, I do not find that I have enough to say that further checks would have shown this loan to be unaffordable for Ms O.

Loan two: February 2020

Loan two was provided in part to repay loan one. Loan two was for £35,000 and required monthly repayments of around £611. This was a large loan with high monthly repayments, and while I note Ms O declared a net monthly income of £6,400, I can also see that her unsecured debts had increased to over £57,000. Given the size of the loan and repayments and noting that Ms O already had over £57,000 of unsecured debt, I think that further verification should have taken place to ensure that Tesco Bank had a clear understanding of Ms O's income and expenses to ensure the repayments would be affordable for her.

I have reviewed the bank statements for the three months leading up to the February 2020 loan being provided. Ms O has provided copies of her personal and business account statements, and I can see that she made frequent transfers between these accounts. Having considered the income going into these accounts I find that the income figure declared of around £6,400 wasn't unreasonable.

As I have considered the income going into Ms O's personal and business accounts, I have also considered the expenses from these accounts. Ms O's mortgage payments were

around £1,483 a month and based on her credit file results her credit costs (excluding this loan) were around £874. The expenses from her business accounts averaged around £4,300 a month and her general costs (including living costs such as food and fuel) from her personal account averaged around £1,050 a month. Deducting these from Ms O's income would result in negative disposable income.

While this loan replaced Ms O's previous Tesco Bank loan, as the payments on this loan were higher than her previous loan repayments, including the repayments due on this loan would make Ms O's position worse. I also note that had Ms O's bank statements been considered, Tesco Bank would have seen returned direct debits and reference to loans from private individuals, which I think also suggested possible financial difficulties.

While I think the above approach is reasonable, had I only considered Ms O's personal (non-business) accounts and included the transfers into her personal account as income from her business accounts, I find that her average monthly income would have been around £3,500. Deducting her mortgage (£1,483), general costs (£1,050) and her other credit commitments (£874) would not have left her with sufficient income to cover the additional cost of this loan.

Based on the above, I intend to uphold this complaint in regard to loan two.

I've also considered whether Tesco Bank acted unfairly or unreasonably in some other way given what Ms O has complained about, including whether its relationship with Ms O might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Ms O in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Ms O accepted my provisional decision. Tesco Bank didn't. Tesco Bank noted Ms O's declared net monthly income had been accepted, that her credit check didn't raise concerns and that the second loan repaid the first. It said my provisional decision relied on information from Ms O's business accounts which it didn't have sight of at the time. It didn't accept that further checks were needed in this case and so said it wouldn't have seen the returned direct debits or informal loans showing in Ms O's account statements.

Tesco Bank set out that Ms O had maintained her loan repayments for almost four years until she suffered a sudden drop in income. It said the lending decision wasn't the cause of Ms O's financial difficulties and instead these were due to a change in her circumstances.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I have considered the points that Tesco Bank has made but these haven't changed my conclusions. As no further comments were made in regard to my conclusions about loan one, I haven't considered this further.

In regard to the second loan, I acknowledged in my provisional decision that the second loan was in part intended to repay the first. However, I find that given the size of the loan and Ms O's increase in unsecured debts, further verification of Ms O's financial circumstances was needed. I note the comment Tesco Bank has made about not seeing Ms O's business account statements but I think that had further checks been undertaken, Tesco Bank would have identified the frequent transfers between her accounts and so it would have been reasonable to have asked further questions about this. Had this happened, then I agree that the income figure of £6,400 wasn't unreasonable, but I find that further checks of Ms O's

expenses would have identified that her expenses exceeded her income.

That said, as I noted in my provisional decision, if only Ms O's personal statements were considered, these would have also raised concerns. This is because her income would have been identified as around £3,500 and deducting her expenses for her mortgage, other credit costs and general living costs would not leave sufficient funds to meet the loan repayments.

So, for the reasons I set out in my provisional decision, and above, I think that further checks were needed before loan two was issued and had these happened, they would have raised concerns about the affordability of this loan. Therefore, I am upholding this complaint in regard to loan two.

Putting things right

As I don't think Tesco Bank ought to have granted the second loan, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Ms O should pay back the amount she borrowed. Therefore, Tesco Bank should:

- Add up the total repayments Ms O has made and deduct these from the total amount of money Ms O received.
- a) If this results in Ms O having paid more than she received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement)*. Tesco Bank should also remove all adverse information regarding this account from Ms O's credit file.
- b) If any capital balance remains outstanding, then Tesco Bank should arrange an affordable and suitable payment plan with Ms O. Once Ms O has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

*HM Revenue & Customs requires Ms O to take off tax from this interest. Tesco Bank must give Ms O a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that Barclays Bank UK PLC trading as Tesco Bank should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms O to accept or reject my decision before 9 April 2026.

Jane Archer
Ombudsman